

*Ann M. Menke*

Certified Public Accountant  
A Professional Corporation

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**CITY OF DONNELSON**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2012**

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## City of Donnellson

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2012)</b>		
Bill Young	Mayor	December 31, 2013
Dave Ellingboe	Mayor Pro tem	December 31, 2011
Jan Fraise	Council Member	December 31, 2011
Matt Morrison	Council Member	December 31, 2013
Deb Nagel	Council Member	December 31, 2013
Kevin Schneider	Council Member	December 31, 2013
Jane Krebill	Clerk/Treasurer	Indefinite
Greg Johnson	City Attorney	Indefinite
<b>(After January 2012)</b>		
Bill Young	Mayor	December 31, 2013
Dave Ellingboe	Mayor Pro tem	December 31, 2015
Jan Fraise	Council Member	December 31, 2015
Matt Morrison	Council Member	December 31, 2013
Deb Nagel	Council Member	December 31, 2013
Kevin Schneider	Council Member	December 31, 2013
Jane Krebill	Clerk/Treasurer	Indefinite
Greg Johnson	City Attorney	Indefinite

**CITY OF DONNELSON**

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Donnellson, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Donnellson's management. My responsibility is to express opinions on these financial statements based on my audit.

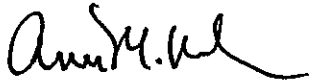
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2011.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2011, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Donnellson as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated March 29, 2013 on my consideration of the City of Donnellson's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Donnellson's basic financial statements. The budgetary comparison information on pages 18 through 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in my audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.



Ann M. Menke  
Certified Public Accountant  
Professional Corporation  
March 29, 2013

## **BASIC FINANCIAL STATEMENTS**

**City of Donnellson**  
**Statement of Activities and Net Assets - Cash Basis**  
**As of and For the Year Ended June 30, 2012**

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 150,427	\$ 653	\$ 57,563	\$ -
Public works	128,556	-	83,545	-
Health and social services	2,650	-	-	-
Culture and recreation	209,418	28,100	-	-
General government	107,164	-	-	-
Debt service	49,985	-	-	-
Total governmental activities	648,200	28,753	141,108	-
Business type activities				
Water	133,806	118,674	-	-
Sewer	273,900	243,005	-	-
Solid waste	31,500	50,602	-	-
Debt service	57,691	-	-	-
Total business type activities	496,897	412,281	-	-
Total	<u>\$ 1,145,097</u>	<u>\$ 441,034</u>	<u>\$ 141,108</u>	<u>\$ -</u>
<b>General Receipts and Transfers:</b>				
Property tax levied for:				
General purposes				
Debt service				
Insurance				
Employee benefits				
Local option sales tax				
Unrestricted interest on investments				
Loan proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				



Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ (92,211)	\$ -	\$ (92,211)
(45,011)	-	(45,011)
(2,650)	-	(2,650)
(181,318)	-	(181,318)
(107,164)	-	(107,164)
(49,985)	-	(49,985)
(478,339)	-	(478,339)
-	(15,132)	(15,132)
-	(30,895)	(30,895)
-	19,102	19,102
-	(57,691)	(57,691)
-	(84,616)	(84,616)
(478,339)	(84,616)	(562,955)
144,459	-	144,459
36,346	-	36,346
34,781	-	34,781
15,914	-	15,914
87,345	-	87,345
3,433	2,999	6,432
105,351	127,663	233,014
49,522	-	49,522
(52,973)	52,973	-
424,178	183,635	607,813
(54,161)	99,019	44,858
387,415	129,107	516,522
\$ 333,254	\$ 228,126	\$ 561,380
\$ 7,273	\$ -	\$ 7,273
16,062	-	16,062
43,344	-	43,344
266,575	228,126	494,701
\$ 333,254	\$ 228,126	\$ 561,380

See notes to financial statements.

**City of Donnellson**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Governmental Funds**  
**As of and For the Year Ended June 30, 2012**

	General	Road Use Tax	Special Revenue Donnellson Fire Association	Other Non Major Governmental Funds	Total
<b>Receipts:</b>					
Property tax	\$ 179,240	\$ -	\$ -	\$ 52,260	\$ 231,500
Other city taxes	87,345	-	-	-	87,345
Licenses and permits	860	-	-	-	860
Use of money and property	3,235	-	198	-	3,433
Intergovernmental	13,650	83,545	51,921	-	149,116
Charges for services	28,753	-	-	-	28,753
Miscellaneous	14,113	-	26,541	-	40,654
Total receipts	<u>327,196</u>	<u>83,545</u>	<u>78,660</u>	<u>52,260</u>	<u>541,661</u>
<b>Disbursements:</b>					
Operating:					
Public safety	88,478	-	61,949	-	150,427
Public works	34,283	94,273	-	-	128,556
Health and social services	2,650	-	-	-	2,650
Culture and recreation	209,418	-	-	-	209,418
General government	91,776	-	-	15,388	107,164
Debt service	-	-	19,348	30,637	49,985
Total disbursements	<u>426,605</u>	<u>94,273</u>	<u>81,297</u>	<u>46,025</u>	<u>648,200</u>
(Deficiency) excess of receipts					
(Under) over disbursements	(99,409)	(10,728)	(2,637)	6,235	(106,539)
Other financing sources (uses)					
Loan proceeds	105,351	-	-	-	105,351
Operating transfers in	17,000	-	-	-	17,000
Operating transfers out	(69,973)	-	-	-	(69,973)
Total other financing sources	<u>52,378</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,378</u>
Net change in cash balances	(47,031)	(10,728)	(2,637)	6,235	(54,161)
Cash balances beginning of year	<u>307,415</u>	<u>18,001</u>	<u>23,575</u>	<u>38,424</u>	<u>387,415</u>
Cash balances end of year	<u>\$ 260,384</u>	<u>\$ 7,273</u>	<u>\$ 20,938</u>	<u>\$ 44,659</u>	<u>\$ 333,254</u>
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Streets	\$ -	\$ 7,273	\$ -	\$ -	\$ 7,273
Debt service	-	-	-	16,062	16,062
Other purposes	-	-	20,938	22,406	43,344
Unassigned	<u>260,384</u>	<u>-</u>	<u>-</u>	<u>6,191</u>	<u>266,575</u>
Total cash basis fund balances	<u>\$ 260,384</u>	<u>\$ 7,273</u>	<u>\$ 20,938</u>	<u>\$ 44,659</u>	<u>\$ 333,254</u>

See notes to financial statements.

**City of Donnellson**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and For the Year Ended June 30, 2012**

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for services	\$ 118,674	\$ 243,005	\$ 50,602	\$ 412,281
Total operating receipts	<u>118,674</u>	<u>243,005</u>	<u>50,602</u>	<u>412,281</u>
Operating disbursements:				
Business type activities	<u>76,383</u>	<u>132,414</u>	<u>31,500</u>	<u>240,297</u>
Total operating disbursements	<u>76,383</u>	<u>132,414</u>	<u>31,500</u>	<u>240,297</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	42,291	110,591	19,102	171,984
Non-operating receipts (disbursements):				
Transfer from general fund	-	69,973	-	69,973
Transfer to general fund	-	-	(17,000)	(17,000)
Interest on investments	686	2,173	140	2,999
Loan proceeds	50,000	77,663	-	127,663
Debt service	(49,112)	(8,579)	-	(57,691)
Capital projects	(57,423)	(141,486)	-	(198,909)
Net non-operating receipts (disbursements)	<u>(55,849)</u>	<u>(256)</u>	<u>(16,860)</u>	<u>(72,965)</u>
Net change in cash balances	(13,558)	110,335	2,242	99,019
Cash balances beginning of year	<u>87,189</u>	<u>19,693</u>	<u>22,225</u>	<u>129,107</u>
Cash balances end of year	<u>\$ 73,631</u>	<u>\$ 130,028</u>	<u>\$ 24,467</u>	<u>\$ 228,126</u>
<b>Cash Basis Fund Balances</b>				
Unrestricted	<u>\$ 73,631</u>	<u>\$ 130,028</u>	<u>\$ 24,467</u>	<u>\$ 228,126</u>
Total cash basis fund balances	<u>\$ 73,631</u>	<u>\$ 130,028</u>	<u>\$ 24,467</u>	<u>\$ 228,126</u>

See notes to financial statements.

**City of Donnellson**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Donnellson is a political subdivision of the State of Iowa located in Lee County. It was first incorporated in 1892 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Donnellson has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The Police Chief is a member of the Lee County Joint E911 Service Board.

**B. Basis of Presentation**

**Government-wide Financial Statement** – The Statement of Activities and Net Assets-Cash Basis reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets-Cash Basis presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

**City of Donnellson**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets-Cash Basis demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Donnellson Fire Association Fund is used to account for fundraisers, donations, and grants for the operation and maintenance of the fire facilities.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

**City of Donnellson**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

**C. Measurement Focus and Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Governmental Cash Basis Fund Balances**

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, health and social services, culture and recreation, and business type activities functions.

**City of Donnellson**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2012**

**NOTE 2 – CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The City's investments were entirely in the form of certificates of deposit during the year ending June 30, 2012.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**NOTE 3 – BONDS AND NOTES PAYABLE**

Annual debt service requirements to maturity for the revenue bonds and bank notes are as follows:

Year Ending	Revenue Bond		Bank Notes		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 9,000	\$ 6,720	\$ 49,777	\$ 16,025	\$ 58,777	\$ 22,745
2014	9,000	6,450	51,829	13,963	60,829	20,413
2015	9,000	6,180	48,230	12,188	57,230	18,368
2016	10,000	5,910	47,803	10,618	57,803	16,528
2017	10,000	5,610	37,946	9,079	47,946	14,689
2018-22	55,000	23,370	152,904	29,233	207,904	52,603
2023-27	64,000	14,610	56,783	13,432	120,783	28,042
2028-32	58,000	4,410	54,797	4,388	112,797	8,798
Total	<u>\$ 224,000</u>	<u>\$ 73,260</u>	<u>\$ 500,069</u>	<u>\$ 108,926</u>	<u>\$ 724,069</u>	<u>\$ 182,186</u>

**Sewer Revenue Bond**

The City has pledged future utility customer receipts, net of specified operating disbursements, to repay \$232,000 of sewer revenue notes issued on February 17, 2012. Proceeds from the bond provided financing for the construction activities being undertaken with respect to the Wastewater Treatment System. The notes are payable solely from net revenues of the utility, and are payable through 2031. The total principal and interest remaining to be paid on the notes as of June 30, 2012 is \$297,260. For the current year, principal and interest paid and total customer net operating receipts were \$8,579 and \$243,005, respectively. As of June 30, 2012, the City had drawn down \$77,663 of the total \$232,000 available and has reduced interest costs accordingly. The City has subsequently drawn down the remainder of the \$232,000 available.

**City of Donnellson**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2012**

**NOTE 4 – PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$14,249, equal to the required contribution for the year.

**NOTE 5 – COMPENSATED ABSENCES**

The three salaried City employees accumulate a certain number of vacation and sick leave hours for subsequent use. In the event of termination, retirement, or death, the City would pay for the unused vacation leave balance. The City does not pay for unused sick leave hours. The City's approximate liability for earned vacation payable to employees at June 30, 2012, was approximately \$6,240.

**NOTE 6 – INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Sewer	General	\$ 69,973
General	Solid Waste	<u>17,000</u>
Total		<u>\$ 86,973</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.



**City of Donnellson**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2012**

**NOTE 7 – RELATED PARTY TRANSACTIONS**

The City had business transactions with the service station owned by Mayor Pro-tem David Ellingboe for the purchase of fuel and other vehicle expenses totaling \$14,252 during the year ended June 30, 2012.

**NOTE 8 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 9 – SUBSEQUENT EVENTS**

On February 8, 2013, the City entered into a Loan and Disbursement Agreement with the Iowa Finance Authority to borrow \$3,155,000 at a 3% interest rate. The purpose of this agreement is to finance the Sewer upgrade mandated by the State.

Management has evaluated subsequent events through March 29, 2013, the date which the financial statements were available for issue.

## **OTHER INFORMATION**

**City of Donnellson**  
**Budgetary Comparison Schedule**  
**of Receipts, Disbursements and Changes in Balances -**  
**Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds**  
**Other Information**  
**For the Year Ended June 30, 2012**

	Governmental Funds Actual	Proprietary Funds Actual	Total
<b>Receipts</b>			
Property tax	\$ 231,500	\$ -	\$ 231,500
Other city taxes	87,345	-	87,345
Licenses and permits	860	-	860
Use of money and property	3,433	-	3,433
Intergovernmental	149,116	-	149,116
Charges for services	28,753	412,281	441,034
Miscellaneous	40,654	-	40,654
Total receipts	<u>541,661</u>	<u>412,281</u>	<u>953,942</u>
<b>Disbursements</b>			
Public safety	150,427	-	150,427
Public works	128,556	-	128,556
Health and social services	2,650	-	2,650
Culture and recreation	209,418	-	209,418
General government	107,164	-	107,164
Debt service	49,985	-	49,985
Business type activities	-	496,897	496,897
Total disbursements	<u>648,200</u>	<u>496,897</u>	<u>1,145,097</u>
Excess of receipts over disbursements	(106,539)	(84,616)	(191,155)
Other financing sources, net	<u>52,378</u>	<u>183,635</u>	<u>236,013</u>
Excess of receipts and other financing sources over disbursements and other financing uses	(54,161)	99,019	44,858
Balance, beginning of year	<u>387,415</u>	<u>129,107</u>	<u>516,522</u>
Balance, end of year	<u>\$ 333,254</u>	<u>\$ 228,126</u>	<u>\$ 561,380</u>

Budgeted Amounts		Final to
Original	Final	Total Variance
\$ 226,288	\$ 226,288	\$ 5,212
93,277	93,277	(5,932)
1,200	1,200	(340)
3,950	3,950	(517)
231,500	231,500	(82,384)
293,375	293,375	147,659
6,000	276,000	(235,346)
<u>855,590</u>	<u>1,125,590</u>	<u>(171,648)</u>
84,750	94,750	(55,677)
128,400	143,400	14,844
2,500	3,000	350
110,225	220,225	10,807
116,825	116,825	9,661
36,750	36,750	(13,235)
276,300	511,300	14,403
<u>755,750</u>	<u>1,126,250</u>	<u>(18,847)</u>
99,840	(660)	(190,495)
<u>-</u>	<u>58,700</u>	<u>(177,313)</u>
99,840	58,040	(13,182)
<u>480,338</u>	<u>480,338</u>	<u>36,184</u>
<u>\$ 580,178</u>	<u>\$ 538,378</u>	<u>\$ 23,002</u>

See accompanying independent auditor's report.

**City of Donnellson**  
**Notes to Other Information – Budgetary Reporting**  
**For the Year Ended June 30, 2012**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$370,500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, health and social services, culture and recreation, debt service, and business type activities functions.

## **SUPPLEMENTARY INFORMATION**

**City of Donnellson**  
**Schedule of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Nonmajor Governmental Funds**  
**As of and For the Year Ended June 30, 2012**

	<u>Special Revenue</u>			
	Employee Benefits	Capital Projects	Debt Service	Total
Receipts:				
Property tax	\$ 15,914	\$ -	\$ 36,346	\$ 52,260
Total receipts	<u>15,914</u>	<u>-</u>	<u>36,346</u>	<u>52,260</u>
Disbursements:				
Operating:				
General government	15,388	-	-	15,388
Debt service	<u>-</u>	<u>-</u>	<u>30,637</u>	<u>30,637</u>
Total disbursements	<u>15,388</u>	<u>-</u>	<u>30,637</u>	<u>46,025</u>
Net change in cash balances	526	-	5,709	6,235
Cash balances beginning of year	<u>21,880</u>	<u>6,191</u>	<u>10,353</u>	<u>38,424</u>
Cash balances end of year	<u>\$ 22,406</u>	<u>\$ 6,191</u>	<u>\$ 16,062</u>	<u>\$ 44,659</u>
<b>Cash Basis Fund Balances</b>				
Restricted for Debt service	\$ -	\$ -	\$ 16,062	\$ 16,062
Restricted for other purposes	22,406	-	-	22,406
Unassigned	<u>-</u>	<u>6,191</u>	<u>-</u>	<u>6,191</u>
Total cash basis fund balances	<u>\$ 22,406</u>	<u>\$ 6,191</u>	<u>\$ 16,062</u>	<u>\$ 44,659</u>

See accompanying independent auditor's report.

**City of Donnellson**  
**Schedule of Indebtedness**  
**For the Year Ended June 30, 2012**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Borrowed</u>	<u>Balance Beginning of Year</u>
Bank loan agreements:				
Fire Station	January 2, 2002	5.00%	\$ 53,740	\$ 6,646
Fire Association Land	May 20, 2005	4.00%	18,000	8,059
Fire Truck	November 19, 2008	3.00%	77,380	65,115
Park Land	February 17, 2005	4.00%	97,541	3,531
Park Improvements	February 17, 2005	3.00%	115,000	84,933
Water Improvements	January 12, 2005	3.00%	160,000	195,440
Backhoe	July 1, 2010	4.00%	59,925	50,729
Police Cars	September 18, 2008	5.00%	22,000	13,836
Ball Field Lights	August 24, 2011	3.00%	70,351	-
Sewer Land	December 29, 2011	3.00%	35,000	-
Total				<u>\$ 428,289</u>
Sewer Revenue Bond:				
Sewer Revenue Bond	February 17, 2012	3.00%	\$ -	<u>\$ -</u>



## Schedule 2

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ -	\$ 6,646	\$ -	\$ 333
-	1,966	6,093	323
-	6,958	58,157	3,122
-	3,531	(0)	103
-	7,977	76,956	2,548
50,000	42,744	202,696	6,368
-	9,360	41,369	2,037
-	4,390	9,446	692
70,351	-	70,351	-
35,000	-	35,000	-
<u>\$ 155,351</u>	<u>\$ 83,572</u>	<u>\$ 500,068</u>	<u>\$ 15,526</u>
 <u>\$ 77,663</u>	 <u>\$ 8,000</u>	 <u>\$ 69,663</u>	 <u>\$ 579</u>

See accompanying independent auditor's report.

*Ann M. Menke*

Certified Public Accountant  
A Professional Corporation

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council  
Donnellson, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Donnellson, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated March 29, 2013. My report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Donnellson is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the City of Donnellson's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Donnellson's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Donnellson's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Donnellson's financial statements will not be prevented or detected and corrected on a timely

basis. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as items A, C and D to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in Part I of the accompanying Schedule of Findings as item B to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Donnellson's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Donnellson's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Donnellson's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Donnellson and other parties to whom the City of Donnellson may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Donnellson during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Sincerely,



Ann M. Menke  
Certified Public Accountant  
March 29, 2013

**City of Donnellson  
Schedule of Findings  
For the Year Ended June 30, 2012**

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

**2012-I-A**

Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas for the City:

1. Accounting system – performing all general accounting functions and custody of assets.
2. Cash – preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
3. Investments – detailed record keeping, custody of investments and reconciling earnings.
4. Long term debt – recording and reconciling.
5. Receipts – collecting, depositing, journalizing, reconciling, and posting.
6. Utility receipts – billing, collecting, depositing, and posting.
7. Disbursements – check writing, reconciling, and posting.
8. Payroll – preparation, distribution, and posting.
9. Financial reporting – preparing, reconciling, and distributing.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should continue to review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of independent reviews should be indicated by initials of the independent reviewer.

Response – We will consider this.

Conclusion – Response accepted.

**2012-I-B**

Payment of Sales Tax – I noted that the City paid sales tax of \$264.96 on an invoice for construction for the Library.

Recommendation – Procedures should be established to ensure that the City does not pay sales tax, or later obtains a refund from the State of all amounts paid.

Response – This one sales tax payment was an oversight. We will be careful to avoid paying sales tax in the future.

Conclusion – Response accepted.

**City of Donnellson  
Schedule of Findings  
For the Year Ended June 30, 2012**

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES (CONTINUED):**

**2012-I-C**

Separately Maintained Records – The Donnellson Fire Association maintains separate accounting records pertaining to their operations. This activity is not included in the City's accounting records or included as part of the City's budgeting process. This financial activity has been included in this audit report in Exhibits A and B.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any purpose..." For better accountability, financial and budgetary control, the financial activity and balances of the Donnellson Fire Association should be included in the City's accounting records and reported to the City Council on a monthly basis.

Response – We will consider this.

Conclusion – Response accepted.

**2012-I-D**

Bank Reconciliation – The June 2012 bank reconciliations prepared for the City's regular and water checking accounts did not include the month end payroll tax debits. The June 2012 bank reconciliation for the City's water checking account improperly included an anticipated tax refund that was not received by June 30.

Recommendation - Procedures should be implemented to ensure that automatic debits are not overlooked. A council member or the mayor should review the monthly bank reconciliations and initial and date the reconciliation as evidence of this review.

Response – We will consider this.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**City of Donnellson  
Schedule of Findings  
For the Year Ended June 30, 2012**

**Part II: Other Findings Related to Required Statutory Reporting:**

**2012-II-A**

Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public safety, health and social services, culture and recreation, and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” A budget amendment was adopted June 25, 2012, which is not by May 31 as required by Chapter 24.9 of the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future as necessary. Any budget amendment needed will be adopted by May 31.

Conclusion – Response accepted.

**2012-II-B**

Questionable Disbursements – I noted no disbursements that may not meet the requirements of public purpose as defined by an Attorney General’s opinion dated April 25, 1979.

**2012-II-C**

Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**2012-II-D**

Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dave Ellingboe, Mayor pro-tem		
Owner, Donnellson Tire and Service	Fuel and repairs	\$ 14,252

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest as the cumulative amount was greater than \$2,500 during the year.

**2012-II-E**

Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**City of Donnellson  
Schedule of Findings  
For the Year Ended June 30, 2012**

**Part II: Other Findings Related to Required Statutory Reporting (Continued):**

**2012-II-F**

City Council Minutes – No transactions were found that I believe should have been approved in the Council minutes but were not.

Minutes of Council proceedings for June 6, June 27, July 11, and December 5, 2011, and August 20, 2012 were not available. The published minutes did not include a purpose/reason for the claims paid, in most cases. For several meetings, the minutes were not signed. The City did not have proof of publication of minutes for several meetings.

Recommendation – The City should comply with the Code of Iowa by ensuring that all minutes and proofs of publication are kept on file and that minutes are properly signed, and the purpose for all claims paid is published.

Response – We will consider this.

Conclusion – Response accepted.

**2012-II-G**

Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

**2012-II-H**

Revenue Bonds and Notes – No instances of non-compliance with the revenue bond resolution was noted.

**2012-II-I**

Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will inform the bank of this requirement.

Conclusion – Response accepted.

**City of Donnellson  
Schedule of Findings  
For the Year Ended June 30, 2012**

**Part II: Other Findings Related to Required Statutory Reporting (Continued):**

**2012-II-J**

Local Option Tax – The City recorded local option tax collections in the General Fund rather than establishing a separate Special Revenue Fund as required by the Code of Iowa.

Recommendation – The City should establish a separate Special Revenue Fund for local option tax revenues and record the related transactions in this fund.

Response – We will establish a separate Special Revenue Fund and record the related transactions in this fund.

Conclusion – Response accepted.

**2012-II-K**

City Code of Ordinances – The City has not compiled the City ordinances within the past five years.

Recommendation – The City should compile a code of ordinances at least once every five years in accordance with Chapter 380.8(1)(c) of the Code of Iowa.

Response – We will update the City Code of Ordinances as required by the Code of Iowa.

Conclusion – Response accepted.

**2012-II-L**

Donnellson Fire Association – The Donnellson Fire Association (Association) has obtained its own taxpayer identification number but is not established as a separate legal entity. The financial activity of the Association should be reported as a department of the City of Donnellson until such time as the Association is able to document its separate legal status. However, the City did not include the financial activity of the Association in its 2012 Annual Report.

Recommendation – The City should include the financial activity of the Association in its Annual Report until such time as the Association is established as a separate nonprofit organization.

Response – The Donnellson Fire Association is considering obtaining a legally separate nonprofit status. Once obtained, a new agreement will be drafted in reference to Chapter 28E of the Code of Iowa.

Conclusion – Response accepted.



**City of Donnellson**

**Audit Staff**

The audit was performed by:

Ann M. Menke, CPA  
Carol A. Ross, CPA  
Ted M. Wiegand, CPA